

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 DOE-15 H-01 INR-10 INT-05 L-03
NSAE-00 NSC-05 OMB-01 PM-05 USIA-06 OES-07 SP-02
SS-15 STR-07 TRSE-00 ACDA-12 /121 W
-----105280 240616Z /16

R 231500Z MAR 78
FM AMEMBASSY KINGSTON
TO AMEMBASSY CARACAS
INFO SECSTATE WASHDC 0356

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E.O. 11652: N/A
TAGS: ENRG, ECIN, JM
SUBJECT: EXXON CONCERN ABOUT JAMAICA

REFERENCE: CARACAS 2656

1. THE PROBLEM CONFRONTING EXXON REGARDING THE DIFFICULTY
OF GETTING ITS JAMAICAN FUNDS RELEASES IS NOT UNIQUE.
INTERNATIONAL AIRLINES AND PRIVATE CREDITORS GENERALLY
FACE A SIMILAR PROBLEM AT THIS TIME.

2. THE FACT IS THAT JAMAICA FACES A DESPERATE FOREIGN
EXCHANGE SITUATION. ITS OVERALL BALANCE OF PAYMENTS
DEFICIT WAS US\$74 MILLION IN 1975, \$265 MILLION IN 1976
AND \$43 MILLION IN 1977. WHILE THE 1977 BALANCE OF
PAYMENTS PERFORMANCE REPRESENTS A SUBSTANTIAL IMPROVEMENT
OVER THE CRISIS SITUATION OF 1976, THE COUNTRY'S FOREIGN
EXCHANGE RESERVES DECLINED FURTHER AND ARE NOW AT AN
ALL-TIME LOW. NET INTERNATIONAL RESERVES DECLINED
FROM J\$145 MILLION AT THE END OF 1974 TO J\$72 MILLION
IN DEC 1975, TO MINUS \$170 MILLION IN DEC 1976 AND
TO A MINUS J\$185 MILLION IN DEC 1977.

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3. A NUMBER OF FACTORS ARE RESPONSIBLE FOR JAMAICA'S
PREDICAMENT. THESE INCLUDE THE IMPACT OF OIL PRICES
ON IMPORTS, THE REDUCTION IN U.S. PURCHASES OF BAUXITE
AND ALUMINA IN 1976, THE DRASTIC DECLINE IN THE PRICE
OF SUGAR, THE DROP IN TOURISM RECEIPTS AND AN OUTFLOW
OF PRIVATE CAPITAL IN PLACE OF THE TRADITIONAL NET

PRIVATE CAPITAL INFLOW WHICH PREVAILED UNTIL 1976. A SUCCESSION OF SUBSTANTIAL AND GROWING BUDGETARY DEFICITS OVER 1973-77 CONTRIBUTED TO INFLATIONARY PRESSURES AND TO THE INCREASING DEMAND FOR IMPORTS.

4. GOVERNMENT MEASURES TO DEAL WITH THE PROBLEM INCLUDE DEVALUATION, ADOPTION OF A DUAL EXCHANGE RATE, IMPOSITION OF A TIGHT IMPORT LICENSING AND FOREIGN EXCHANGE CONTROL SYSTEM AND THE NEGOTIATION OF SUBSTANTIAL AMOUNTS OF FOREIGN ECONOMIC ASSISTANCE.

5. AN IMF STAND-BY AGREEMENT FOR SDR 64 MILLION WAS NEGOTIATED LAST JULY BUT WAS SUSPENDED OWING TO FAILURE BY THE JAMAICANS TO MEET SEVERAL OF THE TARGETS AND GUIDELINES. A NEW AGREEMENT FOR AN EXTENDED FUND FACILITY IS PRESENTLY BEING NEGOTIATED AND WILL BE CONCLUDED VERY SHORTLY.

6. THE U.S. GOVERNMENT HAS ANNOUNCED A US\$63 MILLION ADDITIONAL AID PACKAGE (OVER AND ABOVE THAT WHICH WAS PROVIDED PREVIOUSLY). ABOUT US\$70 MILLION IN LOANS HAVE BEEN NEGOTIATED IN RECENT MONTHS FROM PRIVATE BANKS. OTHER ASSISTANCE WAS OBTAINED FROM THE IBRD, THE IDB, CANADA, NORWAY, THE UNITED KINGDOM, HUNGARY, THE SOVIET UNION, AND VENEZUELA. WE ESTIMATE THAT THE TOTAL AMOUNT OF FOREIGN ECONOMIC ASSISTANCE (INCLUDING US) LIMITED OFFICIAL USE

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AND BANK LOANS NEGOTIATED FOR DISBURSEMENT OVER THE PERIOD 1977-1980 -5 -?975 7 \$360 MILLION.

7. IT IS BELIEVED THAT FOLLOWING ANNOUNCEMENT OF THE APPROVAL OF AN IMF EXTENDED FUND FACILITY (EXPECTED IN APRIL OR MAY), THE SITUATION MIGHT EASE A LITTLE. AT PRESENT, JAMAICA IS EXTREMELY HARD-PRESSED AND IN NO POSITION TO RELEASE LARGE AMOUNTS OF FOREIGN EXCHANGE. IRVING

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, FINANCIAL CRISIS, DEBTS, BALANCE OF PAYMENTS DEFICITS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978KINGST02773
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780129-1058
Format: TEL
From: KINGSTON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780333/aaaabbnh.tel
Line Count: 103
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 19371fbf-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 CARACAS 2656
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3228044
Secure: OPEN
Status: NATIVE
Subject: EXXON CONCERN ABOUT JAMAICA
TAGS: ENRG, ECIN, EFIN, JM, EXXON
To: CARACAS
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/19371fbf-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014